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The Treasury Note

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Veterans Affairs General Obligation Bond Sale

In a bond sale on November 29, 2001 for the Department of Veterans Affairs, the State sold \$228,525,000 million in bonds. The sale included \$111,325,000 in veterans general obligation bonds and another \$117,200,000 in veterans revenue bonds.

Under the Contracts of Purchase between the Department of Veterans Affairs and eligible veterans, the program utilizes proceeds from the sale to acquire residential property to be sold to eligible veterans. This bond sale will provide \$17,141,000 million in new funds to finance new Contracts of Purchase between the Department of Veterans Affairs and eligible veterans. As a result, more veterans will be able to buy homes at lower interest rates. The veterans general obligation bonds were also issued to replace and refund certain outstanding obligations of the State. When bonds are refunded, the State can take advantage of the lower interest rates and restructure their debt so more funds may be made available for veteran's home loans.

Since the inception of the Veterans Farm and Home Purchase Act of 1943, the Contracts of Purchase Program has allowed the Department of Veterans Affairs to assist over 400,000 veterans in purchasing farms and homes throughout the State of California.

The bonds were sold in a negotiated sale led by Bear, Stearns & Co. Inc. Lehman Brothers and Merrill Lynch & Co. served as co-senior managers. The co-managers included First Albany Corporation; Great Pacific Securities, Inc.; Mischler Financial Group; Morgan Stanley; M.R., Beal &

Company; Pacific American Securities; Roberts and Ryan Investments, Inc.; Salomon Smith Barney; Siebert Brandford Shank & Co. LLC; and Tucker Anthony Sutro. Hawkins, Delafield & Wood served as Bond Counsel with Quateman & Zidell LLP serving as disclosure counsel. CSG Advisors served as pricing advisor.

\$41.4 Million in Bonds for the State Public Works Board

On November 27, 2001, the State sold \$41.4 million in bonds for the State Public Works Board (SPWB). The bond proceeds will be used by the Department of Mental Health and the Department of the Youth Authority to upgrade existing facilities. The Department of Mental Health will fund the construction of a 250-bed addition at Atascadero State Hospital. The Department of the Youth Authority will fund the construction of the Ventura Youth Correctional Facility and the Southern Youth Correctional Facility.

The bonds were sold in a negotiated sale by a team of underwriters led by Redwood Securities Group, Inc. and The Chapman Company. Co-managers included eBondTrade, First Albany Corporation, J.P. Morgan Securities Inc., Merrill Lynch & Co., Ramirez & Co., Inc., Roberts and Ryan Investments, Inc., and Siebert Brandford Shank & Co., LLC. Kelling, Northcross & Nobriga served as the pricing advisor. Stradling, Yocca, Carlson & Rauth served as lead bond counsel with Quint & Thimmig LLP as co-bond counsel and Foley & Lardner as disclosure counsel.

UCLA Anderson Forecast

The UCLA Anderson Forecast Project held its quarterly economic conference on December 5. The economists noted that this national recession is not a particularly long or deep one and the United States should see a gradual recovery by mid-year 2002. According to the UCLA economists, the recession actually began last March as a consequence of the "Internet Rush" of the last few years. This rush created corporate, global portfolio, and consumer imbalances that are now correcting themselves in the form of a recession. The recession is not a consequence of the terrorist attacks of September 11, emphasizes Edward E. Leamer, Director of the UCLA Anderson Forecast. He stated terrorism is more likely to cause changes in the economy in the long term as steps are taken to increase national security.

UCLA forecasters stated that due to aggressive interest rate cuts by the feds, real Gross Domestic Product is holding up. They also found many firms held on to their employees as they remember how hard it was to find good workers during the dot-com boom. As a result of these actions, individuals have been able to maintain their lifestyle and keep buying houses. What the nation does face, however, is the pressure the internet has put on firms to compete. The internet has created a highly informed consumer who has the luxury of comparing prices on similar goods at their finger tips. While as a consumer this is great, it is dramatically cutting into firms' profitability. This drop in profits could lead to decreased business investment, bankruptcies, and mergers and acquisitions.

The forecasters further stated that historically, as the economy begins to recover, the unemployment rate rises during the first two quarters of recovery. UCLA predicts that unemployment will continue to grow from its current rate of 5.0 percent in the nation and 5.7 percent in California, expecting it to climb to a high of 5.8 percent nationally and 6.4 percent in California by early 2003. While suffering more than the rest of the nation in job losses from the Internet rush, California reportedly has fared better than the nation as far as job loss as a result of the September 11 terrorism attacks.

According to the UCLA forecasts, the recovery of California will depend on the recovery of its largest customer, the nation. Tourism and trade should pick up by the middle of the year as people regain confidence to travel. Northern California will recover at a slower rate than Southern California due to the significant impact that the Internet market had on their economy. In addition, UCLA analysts report, California needs to address all its budgetary problems. All in all, in a historical look at recessions over the past 50 years, this recession appears to be a mild one stated Edward E. Leamer.

For Your Information

Tax season is approaching and if you received a redemption payment from our office in 2001, you will receive a 1099-B Notice. Our office will mail the forms on or before January 31, 2002. Please contact the *Bondholder Services Section* at (800) 900-3873 if you have questions regarding the 1099-B Notice.

Redemptions & Defeasances

This listing reflects redemptions & defeasances officially announced as of January 1, 2002

California Housing Finance Agency, Multi-Unit Rental Housing Revenue Bonds, 1994 Series A, Dated Date: February 1, 1994 (Full Redemption) All bonds will be redeemed on February 1, 2002.

State of California Veterans General Obligation Bonds, Series BC, Dated Date: March 1, 1995 All of the bonds due February 1, 2018 will be redeemed on February 1, 2002.

State of California Veterans General Obligation Bonds, Series BD, BE and BF, Dated Date: March 1, 1995 All of the bonds due February 1, 2020, 2022 and 2025 will be redeemed on February 1, 2002.

Questions regarding redemptions or registration information can be directed to the Investor Relations Section at (800) 900-3873.

Bond Sales Calendar

The bond sales calendar will be announced in February 2002. For up-to-date information check our website at:

www.treasurer.ca.gov/bonds/calendar.htm or call *Investor Relations* at (800) 900-3873
